

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-319-W

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SC PUBLIC SERVICE
COMMISSION

IN RE:

Application of South Atlantic Utilities, Inc.)
for Approval of an Increase in Rates and Charges)
for the Community Water System at May River)
Plantation in Bluffton, South Carolina)
_____)

DIRECT TESTIMONY OF
JACQUELYN WATSON

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Jacquelyn Watson. My business address is 37 West Fairmont
3 Avenue, Suite 317, Savannah, Georgia 31406.

5 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am a Certified Public Accountant with the firm of Watson & Associates, P.A. of
7 which I am a partner.

9 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND YOUR WORK**
10 **EXPERIENCE?**

11 A. I graduated from the University of Florida with a Bachelor of Science Degree and
12 taught school for 11 years. Additionally, I have been a Certified Public Accountant for
13 twenty years.

14

1 **Q. ARE YOU CURRENTLY A MEMBER OF ANY PROFESSIONAL**
2 **ASSOCIATIONS?**

3 A. I am a member of the Georgia Society of Certified Public Accountants and the
4 American Institute of Certified Public Accountants.
5

6 **Q. WHAT ARE YOUR RESPONSIBILITIES WITH RESPECT TO SOUTH**
7 **ATLANTIC UTILITIES, INC.?**

8 A. My responsibilities include advising the Company as to various financial and tax
9 matters and preparing tax returns and financial statements. I have been providing these
10 services to South Atlantic Utilities, Inc. ("South Atlantic" or the "Company") for
11 approximately twenty (20) years.
12

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

14 A. The purpose of my testimony is to sponsor the application filed by South Atlantic
15 for an adjustment of certain rates and charges for the provision of water services and to
16 provide an explanation of the Company's need for rate relief.
17

18 **Q. PLEASE DESCRIBE THE COMPANY'S APPLICATION.**

19 A. In addition to the proposed rate schedule, the Application contains financial
20 statements consisting of a balance sheet, income statements, an asset and depreciation
21 schedule, revenue calculations under current rates and rates proposed in the application,
22 and a schedule of current and projected customers. Also included is a sample customer
23 bill form.

1 **Q. MS. WATSON, WERE THE FINANCIAL STATEMENTS ATTACHED TO THE**
2 **APPLICATION PREPARED BY YOU OR UNDER YOUR DIRECTION?**

3 **A.**Yes they were.
4

5 **Q. WHAT IS CONTAINED IN THE FINANCIAL STATEMENTS?**

6 **A.**The test year chosen by the Company is the year ended December 31, 2006.
7 Exhibit 2 is the Income Statement for the test year which shows that the Company
8 experienced a per book net income/(loss) of (\$1.255). This results in an operating margin
9 of (13.28%). Additionally, the Company has experienced an increase in per book
10 operating expenses of over \$5,751 since its last rate case. Due to relatively small size of
11 the system served by South Atlantic in South Carolina, this represents over a 116%
12 increase in its expenses. This level of financial loss and increase in expenses
13 demonstrates the Company's need for rate relief.

14 Exhibit 5 details the proposed revenues under the rates requested in the
15 application. Exhibit 6 of the Application is the Balance Sheet as of December 31, 2006.
16 At the end of the test year, May River had assets of approximately \$1,665. Exhibit 8
17 provides information regarding the current and projected customers served by May River.
18 Exhibit 9 is a Schedule demonstrating the allocation of South Atlantic's expenses to the
19 May River system based on total customer count. Exhibit 9 further includes an income
20 statement for the test year categorizing monthly revenue and expenses. Exhibit 15 is a
21 copy of the Company's most recent Water Utility Annual Report filed with the
22 Commission for the calendar year ending December 31, 2006.

1 Additionally, the Application contains an Asset and Depreciation Schedule for
2 South Atlantic's plant in service. The Company also included a copy of correspondence
3 from the South Carolina Office of Regulatory Staff and associated documents indicating
4 that the Company's performance bond agreement and financial statements have been
5 updated and is currently on file with the Commission.
6

7 **Q. PLEASE EXPLAIN THE RELATIONSHIP BETWEEN SOUTH ATLANTIC AND**
8 **WATER UTILITY MANAGEMENT, LLC.**

9 A. Water Utility Management, LLC ("WUM") is a separate corporate entity, which
10 does not operate as a public utility, but provides support services to South Atlantic and its
11 sister corporations in Georgia and South Carolina. These services include plant
12 maintenance, repair and construction, meter reading and the like. WUM allocates any
13 indirect expenses to the companies based upon the number of customers. For those
14 expenses that are attributable to a specific company, WUM passes these costs directly
15 through to the applicable entity. This arrangement, as demonstrated in Exhibits 2, 5 and
16 9 of the application, allows South Atlantic to more efficiently provide utility services to
17 its customers at a reduced cost and to more effectively manage its operational
18 responsibilities.
19

20 **Q. WOULD NOT THE EXPENSES ASSOCIATED WITH THE SERVICES**
21 **PROVIDED TO THE COMPANY BY WUM CONSTITUTE AFFILIATE**
22 **TRANSACTIONS?**

1 No, they would not because there these reimbursements to WUM are simply
2 expense allocations which are based on actual expenses incurred with no intercompany
3 profit. WUM is a separate corporate entity that provides management services only to
4 South Atlantic and its three sister companies. WUM is captive in the sense that its
5 services, which include payroll, tax, procurement services, maintenance and operations
6 are only provided to these entities. This relationship is cost efficient since it avoids
7 duplication of these services and functions for each entity.

8
9 **Q. WHAT RATEMAKING METHODOLOGY DOES THE COMPANY PROPOSE**
10 **THAT THE COMMISSION EMPLOY IN THIS CASE?**

11 **A.**The Company proposes that its rates be determined utilizing operating margin
12 methodology.

13
14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 **A.**Yes, it does.